TIPS ON THE USE OF W. C. CLASS CODES AND HOW TO HANDLE PREMIUM AUDIT DISPUTES

PURPOSE:
FACILITATE A GOOD OUTCOME
THREE CRITICAL ELEMENTS TO REMEMBER REGARDING W.C. CLASSIFICATION SYSTEM

- TIER I - UNIVERSAL RULES APPLYING TO W.C. SYSTEM
- TIER II - INDUSTRY SUB-RULES
- TIER III - CLASS CODE SPECIAL RULES AND/OR INSTRUCTIONS

rsc 6-1-16
CLASSIFICATIONS BY INDUSTRY SEGMENTATION

- CONSTRUCTION
- GOODS AND SERVICES
- MANUFACTURING
- PROFESSIONAL & CLERICAL
- MISCELLANEOUS (INCLUSIVE OF FARMS)
CLASSIFICATION CRITERIA:
THREE KEY ELEMENTS – PER E/R

• **MATERIALS USED**: GAUGE OF METAL, PLASTIC, CLOTH, WOOD ETC - EXAMPLES

• *PROCESS EMPLOYED*: EQUIPMENT, MACHINE OR NON-MACHINE, EDGED/ LASER CUT - EXAMPLES

• **END PRODUCT, COMPLETED OPERATION OR SERVICE PROVIDED**: TROPHIES, TEE-SHIRTS, TENTS, 2x4 WOOD / METAL, ROAD WORK, SOCIAL SERVICES - EXAMPLES

* **MORE EMPHASIS DUE ON RISK & HAZARDS**
CLASSIFICATION RULES
BY INDUSTRIES – PER E/R

• **MERCANTILE - NOTE:**
  > CLASSED BY PRODUCTS SOLD.
  > DETERMINE RETAIL VS WHOLESALE - $
  > BY LOCATION

• **GOODS & SERVICES:** CLASSED BY GOOD OR SERVICES RENDERED. (PREDOMINANT ACTIVITY)

• **MANUFACTURE:** SUB-PRODUCT, ASSEMBLY, OTHER ACTIVITIES INCLUDED.
CLASSIFICATION RULES
BY INDUSTRIES – PER E/R

• **PROFESSIONAL & CLERICAL:** AT TIMES NOT ALL PROFESSIONALS ARE RECOGNIZED BUT ARE EMBEDDED IN CERTAIN CLASS CODES (Ex: 8600 series, 8823, 8824, 25 & 26, 8829, 8832, 8833, 8835, 8842, 8864, 8855 & 8868 etc.)

• **CONSTRUCTION:** CAPABLE OF TIME CARDING **PROVIDED NOT LIMITED BY CLASS CODE PHRASEOLOGY OR RULE.**
  HVAC: TODAY 5537 (PRIOR:3724,5551,5183,5190 ETC)
  SOLAR PASSIVE WATER HEATING:5183, 3724, 5551, 5190
  SOLAR VOLTAIC ELECTRICITY: 5190, 3724, 5551
  MFG - ASSEMBLY OF GRIDS: VOLTAIC- 3179; HEATING – 3169(5535/3169 -?)

• **MISCELLANEOUS:** SAME AS CONSTRUCTION ; **FARM PAYROLLS** TIED TO ACREAGE ALLOCATION BY CROP
CLASSIFICATIONS – OTHER CONSIDERATIONS

• **GENERAL INCLUSIONS: (NCCI RULE I B 3)**
  – RESTAURANT/CAFETERIA – **OWN** EE’S
  – MFG PACKAGING FOR PRODUCT – BOXES, BOTTLES, BAGS – **OWN** PRODUCT
  – NURSING STATION/HOSPITAL – **OWN** EE’S
  – MAINTENANCE/REPAIR – OF E/R **OWN** BUILDING OR EQUIPMENT
  – PRINTING OR LITHOGRAPHY FOR PRODUCT – **OWN** PRODUCTS
CLASSIFICATIONS – OTHER CONSIDERATIONS

• **GENERAL EXCLUSIONS**: (NCCI I B 4)
  
  – AVIATION
  – NEW CONSTRUCTION OR ALTERATION
  – STEVEDORING
  – SAWMILL OPERATION
  – EMPLOYER OPERATED DAY CARE CENTER – (PRIMARILY FOR OWN EMPLOYEES)
CLASSIFICATIONS – OTHER CONSIDERATIONS – PER E/R

- **GOVERNING CLASS** = *BASIC CLASSIFICATION (NCCI RULE I C)*
- **PRINCIPLE BUSINESS** = *BASIC CLASSIFICATION (NCCI RULE I C)*
- **WORDS & PHRASEOLOGY:**
  - ALL EE’S ALL OPERATIONS
  - INCLUDES: CLERICAL, SALES & DRIVERS – PRONE FOR ERRORS
  - NOC – NOT OTHERWISE CLASSIFIED – GENERALLY CANNOT BE TIME CARDED WITH ANOTHER CLASS CODE
  - HEIGHTS: (15 feet = 1 story)
  - INSTRUCTED - TO BE SEPARATELY RATED

* BEST CLASS CODE DESCRIBING THE OPERATIONS OF EMPLOYER
CONSTRUCTION – PROJECT CODES

• **APPLICABLE TO WHOM?**  WHAT CLASS CODES APPLY?
  
  **General Contractors:**
  • > **Residential** – class code 5645 (<= 3 Stories)
  • > **Commercial** – class code 5403 (> 3 Stories dwellings or Commercial) Carpentry repair or remodeling of buildings & dwellings > 3 stories. Applies to both interior and/or exterior activities.
  • > **Note**: Example: Project Cabinet repair only with no framing then the class code be the cabinet class code.
  • **However, should the project include framing with cabinet repair** - class code 5403 would then apply.
  Framing using light gauge steel of 12 to 25 gauge is also contemplated.
AUDIT DISPUTES

• THE MOST COMMON PROBLEMS CITED IN AUDIT DISPUTES ARE:
  – CLASSIFICATION ASSIGNMENTS
  – NCCI RULES FOR ASSIGNING CLASS CODES
  – STRAIGHT TIME VS OVER TIME
  – PAYROLL LIMITATIONS (PRINCIPLES OR OWNERS, STATE EXCEPTIONS: NEVADA - $36,000 – ALL EE’S)
  – EXPERIENCE RATING (HOW EXP RATING INTER-RELATES WITH CLASS CODES)
  – INTERCHANGE OF LABOR
INTERCHANGE OF LABOR
INTERCHANGE OF LABOR

• CLASSIFICATION ASSIGNMENT – BEST CLASS THAT DESCRIBES OPERATION (SUBJ. TO STD EXCEPTIONS)
  – SECONDARY ASSIGNMENT BASED ON RULE 1D 3 (NCCI)
    MEETING THE FOLLOWING CONDITIONS:
    A) PRINCIPLE CLASS REQUIRES A SEPARATE CLASS
    B) E/R CONDUCTS ONE OF THE FOLLOWING: (NCCI RULE I F)
      1) CONSTRUCTION/ERECTION
      2) FARMING
      3) EE LEASING, LABOR CONTRACTING OR TEMP LABOR
      4) MERCANTILE
INTERCHANGE OF LABOR CONTINUED

• E/R CONDUCTS MORE THAN ONE OPERATION WITHIN STATE – CONDITIONS THAT IS REQUIRED TO BE MET: (NCCI I D3)
  – ABLE TO EXIST AS A SEPARATE BUSINESS – MEANING NOT RELYING ON SAME CLIENTELE AS RELATED ENTITY

1. PHYSICAL SEPARATION ON SAME OR SEPARATE FLOOR – EE’S NOT BEING EXPOSED TO ADDITIONAL RISK OR HAZARDS
2. MAINTAIN PROPER PAYROLL RECORDS – MEANS
  1) **ACTUAL** PAYROLL TIME AND CLASS CODE(S) – NO ESTIMATES OF TIME OR PAYROLL
  2) MAINTAIN COMPARABLE WAGES FOR EE WHEN COMPARED TO:
     E/R’S INDUSTRY OR ITS COMPETITORS – NO ESTIMATES
3) SHOULD THE PRIMARY BUSINESS: 
   **NOT CONTEMPLATE THE SECONDARY CLASS** 
   AND ALL OTHER RULES ARE MET – 
   **A SECONDARY CLASS CODE MAY BE USED.**

4) SHOULD THE ADDITIONAL OPERATION **NOT** 
   MEET ALL CONDITIONS: **ASSIGNMENT OF** 
   **CLASS CODE(S) WILL BE DONE ACCORDANCE** 
   **WITH THE FOLLOWING RULES:**
INTERCHANGE OF LABOR CONTINUED

SECONDARY BUSINESS CONTEMPLATED BUT DOES NOT MEET ALL REQUIREMENTS:

• LOWER RATE THAN PRINCIPLE BUSINESS – ASSIGN PRINCIPLE BUSINESS

• HIGHER RATE THAN PRINCIPLE BUSINESS – ASSIGN SECONDARY CLASS CODE CARRYING HIGHER RATE

• MULTIPLE CLASS CODES MAY BE USED BASED ON RULES AND QUALITY OF TIME CARDING
INTERCHANGE OF LABOR CONTINUED

- STANDARD EXCEPTIONS: *(7380), 8742, 8748, 8810, 8871
  * NOT ALLOWED IN AZ, CA or NV
- WHERE EMPLOYEE ACTIVITIES INCLUDE BOTH BASIC AND STANDARD EXCEPTION – ASSIGN THE BASIC CLASS (NOT STD EXCEPTION) WITH THE LARGEST PAYROLL (RULE: 2 G 4)
- WHERE EMPLOYEE ACTIVITIES INCLUDE 8810 & OTHER STANDARD EXCEPTION CLASS CODES – ASSIGN IN HIGHEST RATED CLASS (WITHIN THE STD EXCEPTION CLASS CODES) BASED ON TIME OF OVERALL ACTIVITY IF OTHER THAN 8810 (EXAMPLE: 8810 VS 8871)
- WHERE EMPLOYEE ACTIVITIES ARE GREATER IN 8810 THAN ANY OTHER STANDARD EXCEPTIONS – ASSIGN 8810
AUDITORS MAY REQUEST TO EXAMINE THE FOLLOWING:

- PAYROLL LEDGERS
- JOURNALS, REGISTERS, VOUCHERS
- CONTRACTS, BID SPECIFICATIONS (BID SPECS)
- PAYROLL & CASH DISBURSEMENT
- PROGRAM FOR STORING & RETRIEVING RECORDS
- IRS 941 QUARTERLY P/R TAX
- IRS 1099 and/or 1096
- IRS 940 QUARTERLY UNEMPLOYMENT TAX, DES REPORTS
- IRS SCHEDULE C
- IRS FORM 1120
- W-2 AND/OR W-3
- LIST OF VENDORS AND SUBCONTRACTORS WITH AMOUNTS PAID
- CERTIFICATE OF INSURANCE
- BANK STATEMENTS, OR PROFIT & LOSS AND BALANCE STATEMENT
AUDIT DISPUTES AND RECONCILIATION
AUDIT DISPUTES AND RECONCILIATION

MOST DISPUTES ARE GENERATED FROM:
1. E/R NOT UNDERSTANDING THE RULES
2. E/R’S PAST AUDIT EXPERIENCES
3. CHANGES RESULTING FROM SURVEY AND LOSS RUNS (EVEN AT AUDIT THE FOLLOWING INDUSTRIES CAN HAVE CLASS CODES ADDED AND/OR AMENDED): (NCCI BASIC RULE 1 F)
   A) CONSTRUCTION/ERECTION
   B) EMPLOYEE LEASING
   C) LABOR CONTRACTORS
   D) TEMP LABOR SERVICES
AUDIT DISPUTES AND RECONCILIATION

MOST DISPUTES ARE GENERATED FROM: CONTINUED

3. CHANGES ARE RESTRICTED IN OTHER INDUSTRIES:
   (NCCI RULE 1 F 1, 2, 3 [EXCEPT 3 A & B] and 4)
   > 1\textsuperscript{st} 120 DAYS - BACK TO INCEPTION
   > Day 121 + = or GREATER - DATE OF DISCOVERY,
   > LAST 90 DAYS OF COVERAGE ON POLICY –
     (no change) wait until renewal

4. E/R NOT AGREEING WITH THE PREMIUM

5. AUDIT CLOSURE/FINDINGS: NOT DISCUSSED WITH E/R OR CONTACT
WORKING TOWARD A POSITIVE RECONCILIATION
PROTOCOL IN HANDLING DISPUTES AND MOVING TOWARD A POSITIVE RECONCILIATION

• DOCUMENT ALL (E/R & CARRIER) CORRESPONDENCE (DETAILS) REGARDING DISPUTE
• REVIEW WHAT YOU KNOW ABOUT THE E/R WITH THEM
• HAVE E/R SHARE WITH YOU WHAT THEY DO – CONFIRM YOUR UNDERSTANDING - RESTATE WHAT YOU UNDERSTOOD.
• SECURE OTHER COMMON EMPLOYERS DOING SIMILAR ACTIVITY AS E/R.
• PROVIDE A GENERAL HIGH LEVEL OVERVIEW – INTERPLAY RE: CLASSIFICATION & EXPERIENCE RATING IF APPLICABLE
PROTOCOL IN HANDLING DISPUTES AND MOVING TOWARD A POSITIVE RECONCILIATION

• UTILIZE RESOURCES AVAILABLE:
• UTILIZE NCCI SCOPES PAGES – SHARE IF NEEDED
• SILVERPLUME, PAAS, IRMI (INTL RISK MGMT INST)
• SEEK INTERNAL ASSISTANCE. U/W &/OR LOSS CONTROL, SPECIALISTS (NAICS CROSS REFERENCES)
• SEEK NCCI ASSISTANCE FROM RSM (RESOLUTION SERVICE MANAGER – TIM HUGHES)
• PETITION FOR HEARING THROUGH ADOI: “ARIZONA CLASSIFICATION APPEALS BOARD”
• FINAL HEARING WITH ARIZONA DEPT OF INS.
DOWNSTREAM EFFECT

- Overall Employer Loss Experience = Losses to Premium
- Experience Rating Distortion – Experience Modification
- Unit Stat Distortion – Affecting Rate Making Credibility
- NCCI Quality Class Code Assurance Carriers Score Card:
  (NCCI CQA Inspection Information – Governing Code Change): Countrywide Percentage of Errors
    2012: 13.21%
    2013: 15.18%
    2014: 12.24%
    All Years: 13.54%
- Other States - Error Scores Sent to Ins Dept – (In Past Used for Grading Market Conduct Frequency of Carriers)
- Rate Making Distortion – Promulgation of Rates
- Producer Experience – Agency & Broker
- Carrier Branding and Reputation
PURPOSE OF FINAL AUDITS: RECONCILE INITIAL INTENT WITH ACTUAL ACTIVITY - VERIFY

FIVE GOLDEN RULES OR OBJECTIVES:

• ENABLE AUDIT TO CONFIRM FRONT END PREMISE
• COLLABORATION IS A KEY DRIVER TO A COMPREHENSIVE AND PROFESSIONAL AUDIT
• BY EXCHANGING AND SHARING CONCERNS WITH E/R - EVERYONE SHARES PAGE ONE
• EDUCATION IS THE VERY PRINCIPLE OF TRUST
• TRUST IS THE VERY PRINCIPLE OF A PARTNERSHIP
ACKNOWLEDGEMENTS:

• ADOI – ARIZONA DEPT OF INSURANCE
• IRMI – INTERNATIONAL RISK MANAGEMENT INSTITUTE
• NCCI – NATIONAL COMPENSATION INS INC
• PAAS – PREMIUM AUDIT ADVISORY SERVICE
• NAICS – NORTH AMERICA INDUSTRY CLASSIFICATION SYSTEM
• VERTAFORE - SILVERPLUME

rsc 6-1-16